Proposed Refinancing Rules for CLIMBER Fund

1) Making regularly scheduled interest and principal payments on mortgages, loans, and existing debt or paying off existing debt that is due within 90 days is considered a working capital use of CLIMBER Loan proceeds and is not considered to be refinancing.
2) CLIMBER Loans can be used for refinancing per the following terms
   a) The debt being refinanced must be incurred after February 29, 2020 [[or July 1, 2019]]
   b) Any refinanced loans including both new and existing debt must be pari passu with regard to security (e.g. collateral and guarantees) held by the original, refinanced debt.
   c) Lines of credit (LOC) are a unique case and those that meet a) and b) above but not d) below can be refinanced by taking the unpaid balance and turning it into a CLIMBER Term Loan
      i) The bank must also maintain a LOC with the borrower with at least the amount of the original line of credit that was refinanced as a term loan or at 80% of the full original amount of the LOC whichever is larger.
      ii) All three product types (direct lending capital, loan participation, and credit enhancement) can be used for this type of refinance.
      iii) [[Do we need anti-abuse rules on fees associated with LOC for CDFIs]]
   d) <u>All other debt types</u> aside from LOCs, including credit cards and term loans, can be refinanced under the following conditions and subject to a) and b) above
      i) Only via the credit enhancement product (i.e. the lender must use its own capital not CLIMBER Fund investor capital)
      ii) The APR being refinanced to must be at least 5% less than the interest rate on the refinanced loan.
      iii) The lender must provide new credit via a CLIMBER loan at a rate equal to at least $2 for every $1 refinanced unless CHFA approves an exception of a $1 to $1 ratio. This new credit may be an LOC.
      iv) No debt associated with a federally funded loan program can be refinanced. Per 1) CLIMBER Loan Proceeds could be used to make regularly scheduled debt payments including on federal loans. Discussion item...an alternative approach could be that with CHFA's approval, we allow CLIMBER Loans to refinance the unforgiven part of PPP loans which have unaffordably high payments due to the short amortization schedule for businesses who could afford the payments with a longer amortization schedule
      v) If the loan being refinanced had a large origination fee (more than x%) or a prepayment penalty (of more than y%), no fee can be charged on the CLIMBER refinancing. Note that CDFI's cannot use the direct lending product, only the credit enhancement product to refinance except for Line of Credit, so this might be redundant.
      vi) The term on the CLIMBER Loan must be at least as long as the remaining term on the refinanced debt unless CHFA permits an exception.
      vii) Subject to all of the rules above, lenders are allowed to refinance their own or other lenders debt.
3) Discussion Item--Main Street Loans have this requirement: CLIMBER Loans will need to be repaid first during any deleveraging efforts subject to some exceptions as approved by CHFA. [which in certain circumstances may increase the borrowers' overall borrowing costs (e.g., if any other debt has a higher rate of interest than the CLIMBER Loans)]

4) Overall lens...CHFA has some flexibility if the refinancing will help the business and not the bank. Are we ok with that?

Application of These Rules to Borrower Scenarios

Scenario Description	Refinancing Involved?	What is permitted with CLIMBER	Explanation
Borrower is financing a new fixed asset like equipment or real estate.	No	Not Permitted	
Borrower has a balloon payment due on an existing term loan in the next 90 days, it could be real estate, fixed asset or other funding.	No	Permitted	Like the Fed Mainstreet Program this is not considered refinancing it is considered working capital
Borrower needs new funds to buy new inventory or rehire workers as the economy improves. No refinancing required.	No	Permitted	This is a classic working capital loan
Borrower needs new funds to buy new inventory or rehire workers as the economy improves and also will use proceeds for regularly scheduled debt service on existing loans including mortgage.	No	Permitted	This is a classic working capital loan
Borrower has an unretired LOC (due to cash flow cycle interruption) and needs to refinance the outstanding LOC to a term loan and refresh the LOC for next year.	Yes	Permitted using all three product types: direct lending capital, loan participation, and credit enhancements	But must keep original line of credit open subject to certain minimum requirements
Borrower has incurred expensive emergency debt from credit card, factoring, or other high APR source and wants to refinance this at a lower rate but does not want any new debt.	Yes	Not Permitted	
Borrower has incurred expensive emergency debt from credit card, factoring. or other high APR source and wants to refinance this at a lower rate and wants to also obtain any new credit.	Yes	Permitted but only using the credit enhancement product	Only if the new APR is at least 5% less than the current interest rate and only if new debt is also funded per the rules

			above ($2:$1)
Borrower has multiple federal loans from SBA, PPP, EIDL or other sources with varying maturity dates and would like to consolidate loans to CLIMBER to take advantage of the payment deferral, low interest rates, and 5 year term.	Yes	Not Permitted, [[with the exception of the unforgiven portion of the PPP loan.]]	Only with CHFA approval.